




THE CITY OF SAN DIEGO

DATE: January 23, 2009

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor 

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 2 Fiscal Year 2009**

The Office of the City Auditor administers the City's Fraud Hotline program. The Hotline was transferred to the Office of the City Auditor effective July 1, 2008. The primary objective of the Fraud Hotline is to provide a means for City of San Diego employees and citizens to confidentially report (1) any activity or conduct in which he/she suspects instances of fraud, waste, or abuse and (2) violations of certain federal or state laws and regulations (e.g., laws prohibiting discrimination or whistleblower laws).

The Network Inc., an independent third-party provider accepts calls from City employees and the public, providing complete confidentiality at (866-809-3500). The Network prepares a report for each complaint received and sends them to the Office of the City Auditor via email. Callers can choose to remain anonymous, and complaints can also be submitted directly to the Office of the City Auditor.

Processing of Complaints

The Office of the City Auditor investigates all material complaints received related to fraud, waste, and abuse. Any non-fraud or immaterial complaints made to the Fraud Hotline will be reviewed by the City Auditor's Hotline Intake and Review Committee. This committee is composed of (1) the City Auditor, (2) the Personnel Director, and (3) the Labor Relations Director or their designees. This committee will review all complaints pertaining to employee relations, discrimination, harassment, and personnel related complaints. The committee will review complaints and determine whether they meet the criteria for further investigation. The Hotline Intake and Review Committee does not review complaints referred to the Ethics Commission or complaints related to material fraud, waste, or abuse.

In most cases, non-fraud related complaints will be referred to Departments for further review and investigation. The City Auditor will send the appropriate Department Director a memorandum notifying him or her of the complaint and requesting a response and advising of the process for resolving the complaint, if necessary. The Office of the City Auditor ensures, through monitoring and reminders to the designated Department Director, that timely investigative and resolution activities are undertaken in response to complaints received through the Hotline. Department Directors have the responsibility to provide a response that addresses the following:

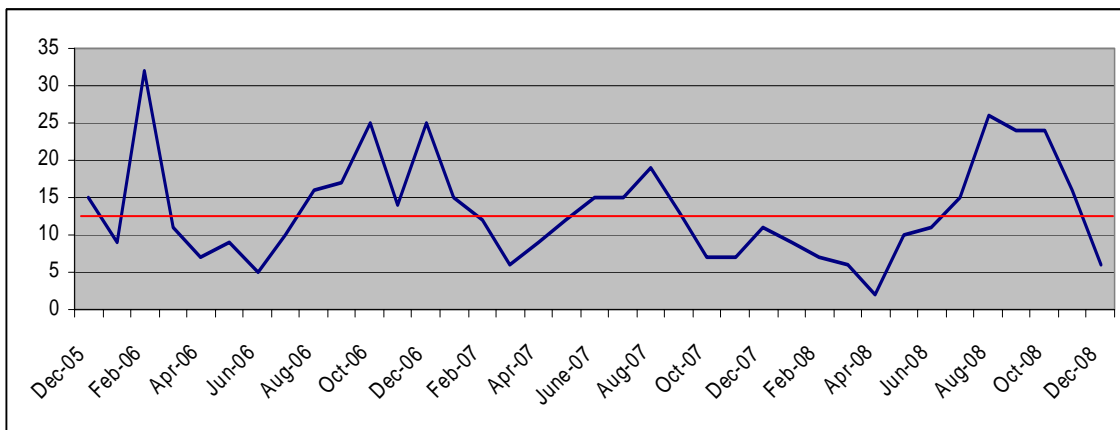
1. A description of an immediate plan to address the issue or concern;
2. Description of a plan to prevent the issue or concern from happening again; and
3. Description of the resolution used to address the issue/concern.

HOTLINE STATISTICS

Number of Call Received

Since the Fraud Hotline was first implemented in December 2005 through December 2008, there have been 492 complaints made to the Hotline. As shown in the following chart, the number of calls has fluctuated over 37 months, with an average of 13 calls per month.

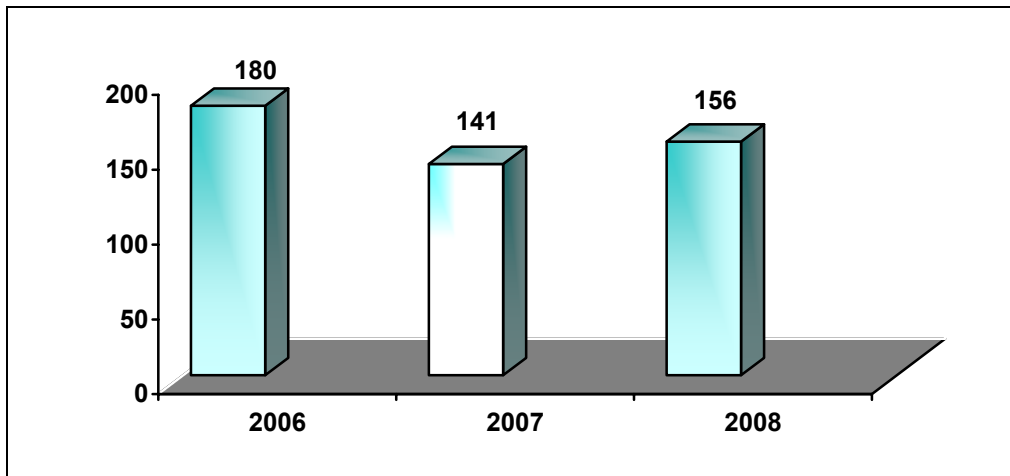
Number of Complaints Received Between December 2005 and December 2008



As shown in the following chart, there were 180, 141, and 156 calls made to the Hotline in calendar years 2006, 2007, and 2008 respectively. Our current contract with the Network provides for 244 calls per year.¹

¹If the number of calls received exceeds 244, we will incur a \$35 charge per call.

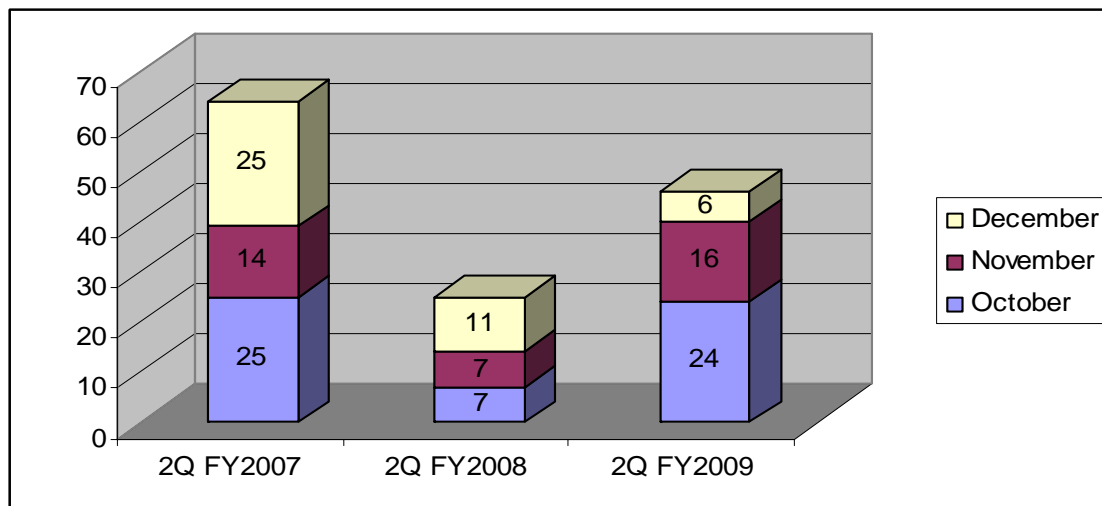
Total Number of Complaints by Calendar Year



Fiscal Year 2009 Second Quarter Results

As shown in the following chart, during the second quarter of fiscal year 2009 (October – December 2008), 46 complaints were made to the Hotline, an 84 percent increase from the second quarter in fiscal year 2008 in which only 25 complaints were received. Additionally, as the chart shows, there has been a decrease in the number of call received each month in the second quarter of fiscal year 2009 (October 24 calls, November 16 calls, and December 6 calls). In the second quarter of fiscal year 2009, 29 (63 percent) of the 46 complaints received were made anonymously.

Number of Complaints Received Second Quarter of Fiscal Years 2007, 2008, 2009



Fiscal Year 2009 First and Second Quarter Complaint Types

As shown in the following table, the majority of complaints made to the Hotline continue to be non-fraud, waste, or abuse related. During the first and second quarters of fiscal year 2009 (July 2008 through December 2008), 111 complaints were received, and 53 percent of the complaints pertain to: employee relations (25 percent); policy issues (21 percent); and customer relations (7 percent). As reported earlier, the Hotline Intake Review Committee reviews non-fraud related complaints and departments perform follow-up investigations. We received 46 complaints in the second quarter compared to 65 complaints received in the first quarter of fiscal year 2009.

Number of Complaints Received First and Second Quarter of Fiscal Year 2009

Category	Quarter 1 July - Sept	Quarter 2 Oct - Dec	Subtotal	Percent	City Auditor Investigations
Employee Relations	18	10	28	25.2%	0
Policy Issues [†]	15	8	23	20.7%	3
Customer Relations	6	2	8	7.2%	0
Conflicts of Interest	5	2	7	6.3%	1
Fraud [‡]	4	3	7	6.3%	4
Discrimination	1	4	5	4.5%	0
Waste and Abuse [§]	1	4	5	4.5%	3
Retaliation of Whistleblowers	1	3	4	3.6%	0
Theft of Goods/Services	1	3	4	3.6%	1
Theft of Time	3	1	4	3.6%	0
Accounting/Audit Irregularities	3	0	3	2.7%	3
Safety Issues and Sanitation	2	1	3	2.7%	1
Sexual Harassment	1	2	3	2.7%	0
Substance Abuse	3	0	3	2.7%	0
Falsification of Records	0	2	2	1.8%	0
Wage/Hour Issues	0	1	1	0.9%	0
Workplace Violence	1	0	1	0.9%	0
Total	65	46	111	100.0%	16

[†] Three calls that were originally classified by the hotline network vendor as “Policy Issues” were actually potential fraud, waste or abuse calls.

[‡] Three calls that were classified by the hotline network vendor as “Fraud” were not investigated by City Auditor staff because one was actually a “Policy Issue”, one allegation occurred too long ago to investigate, and one was outside the City’s jurisdiction.

[§] Two calls that were classified by the hotline network vendor as “Waste and Abuse” were not investigated by City Auditor staff because they were actually “Policy Issues”.

Fraud, Waste and Abuse Complaints Investigated by City Auditor

Since assuming responsibility for the Hotline in July 2008, City Auditor staff has investigated 16 fraud related complaints. Of which, 10 investigations were related to complaints received in the first quarter, and 6 investigations received in the second quarter of fiscal year 2009. During the first half of fiscal year 2009, fraud-related complaints requiring City Auditor investigation represent 14 percent of all complaints filed. There has been a significant increase in the number of fraud-related complaints compared to previous years.

The number of fraud and accounting related complaints made in the first and second quarter of fiscal year 2009 is of concern due to the number hours required to investigate these complaints. Based on the 13 fraud related complaints filed in 2006 and 2007, we estimated allocating 600 staff hours in fiscal year 2009 to investigate up to 15 fraud complaints, averaging about 40 hours per complaint. If the average number of fraud and accounting complaints received in the first two quarters is the same for the remainder of the fiscal year, we estimate receiving a total of 32 fraud-related complaints and exceeding our planned staff hours by 700 hours. Although there has been a downward trend in the number of complaints received during the second quarter of fiscal year 2009, the numbers fluctuate greatly making it difficult to estimate the actual number that will be received during the remainder of the fiscal year. As of December 31, 2008, we have used approximately 598 of 600 staff hours investigating 16 complaints.

Almost 20 Percent of Complaints Are Substantiated or Result In Corrective Action Taken

As reported, 111 complaints were made to the Hotline between July 2008 and December 2008. Of those complaints, 66 complaints have been closed and 45 complaints remain open. As shown in the following table, 41 complaints were unsubstantiated, 4 complaints did not have enough information to permit an investigation, and 21 complaints were substantiated and/or corrective actions were taken.

Complaint Status	City Auditor Investigations	Department Investigations	Total	Percent
Complaint Substantiated / Corrective Action Taken	2	19	21	18.92%
Complaint Unsubstantiated	7	34	41	36.94%
Not Enough Information Provided	2	2	4	3.60%
Complaints Open and Unresolved	5	40	45	40.54%
Total	16	95	111	100.00%

The following table shows the status of the 16 City Auditor investigations by the category of hotline complaint.

Category	City Auditor Investigations	Complaint Substantiated/ Corrective Action Taken	Complaint Unsubstantiated	Not Enough Information Provided	Complaints Open and Unresolved
Policy Issues	3	1	1	0	1
Conflicts of Interest	1	0	1	0	0
Fraud	4	0	2	0	2
Waste and Abuse	3	0	1	1	1
Theft of Goods/Services	1	0	1	0	0
Accounting/Audit Irregularities	3	1	1	0	1
Safety Issues and Sanitation	1	0	0	1	0
Total	16	2	7	2	5

City Auditor Substantiated Complaints

A citizen alleged that the City's Lifeguard Division's Junior Lifeguard Program was holding fundraiser monies for months before depositing the checks received. The complaint was found to be accurate and we recommended the Junior Lifeguard Program adhere to Department policies for making deposits in a timely manner. The Department agreed to implement our recommendation. This Hotline report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/hotlinereportjan16.pdf>

A prior fraudulent incident substantiated by a San Diego Police Department investigation was reported to the hotline. A City employee was terminated for theft of funds from a City work site. A complaint was made to determine if other undetected incidents of fraud may have been perpetrated by this employee. We did not find any other incidents of fraud; however, at the request of the Department, we are including a review the City's pool fee collection process as part of our planned Park and Recreation Facilities Audit to ensure City pools have adequate controls in place to reduce the risk of similar fraud occurring in the future.

Conclusion

The Office of the City Auditor is dedicated to investing the staff resources necessary to investigate all of the reported claims of material fraud, waste and abuse. Although there has been a downward trend in the number of fraud related complaints during the second quarter of fiscal year 2009, if the average number of complaints received in the first two quarters is the same for the remainder of the fiscal year, the Auditor's Office will be required to reduce the number of hours spent on planned performance audits by approximately 700 hours. If the number of calls increases, we will need to hire a full time investigator to examine the fraud related complaints received. We will continue to monitor the number of complaints requiring investigation and take appropriate action.

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor